

# United States Senate

WASHINGTON, DC 20510

March 8, 2019

Commissioner Charles P. Rettig  
Internal Revenue Service  
1111 Constitute Avenue, NW  
Washington, DC 20224

Dear Commissioner Rettig:

We write to express our concern about U.S. efforts to combat money laundering after reports that the Internal Revenue Service (IRS) has in recent years been pursuing fewer cases of violations of the United States tax code and related laws governing financial crimes. We urge you to strengthen enforcement efforts at the IRS, including focusing on tax code violations and financial crimes that may be linked to money laundering.

A failure to fully commit to investigating and prosecuting tax fraud can have serious implications in the investigation and prosecution of more serious financial crimes, such as terrorist financing or money laundering. The Financial Action Task Force recommended in 2012 that tax crimes serve as predicate offences to money laundering given that tax and money laundering violations are closely related.<sup>1</sup> Various divisions of the IRS coordinate to review data collected and enforce money laundering statutes, including under the Bank Secrecy Act, in order to expose disguised illicit financial proceeds. However, according to the Treasury Inspector General for Tax Administration (TIGTA), the IRS's Bank Secrecy Act efforts have been hamstrung by a lack of funding as well as a lack of planning and coordination, and significant staffing cuts across the agency.<sup>2</sup>

Republican-led efforts to cut IRS funding have led to staffing decreases throughout the IRS and undermined the agency's ability to pursue a broad range of civil and criminal enforcement actions. Despite the importance of enforcement efforts, a report from the IRS released on November 14, 2018, shows that the number of special agents in the Criminal Investigations unit responsible for investigating money laundering, violations of the Bank Secrecy Act, and criminal violations of the tax code is at its lowest level in almost 50 years.<sup>3</sup> According to TIGTA, reductions in staffing and funding for CI activities have contributed to a significant decline in CI presence around the United States, as well as a decline in the number of cases initiated and completed.<sup>4</sup>

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<sup>1</sup> Financial Action Task Force. *Best Practices Paper: Managing the Anti-Money Laundering And Counter-Terrorist Financing Policy Implications of Voluntary Tax Compliance Programmes*. October 2012. <http://www.fatf-gafi.org/media/fatf/documents/reports/BPP%20VTC.pdf>.

<sup>2</sup> Treasury Inspector General for Tax Administration. *The Internal Revenue Service's Bank Secrecy Act Program Has Minimal Impact on Compliance*. September 24, 2018. <https://www.treasury.gov/tigta/auditreports/2018reports/201830071fr.pdf>.

<sup>3</sup> Internal Revenue Service. *IRS Criminal Investigation releases Fiscal Year 2018 Annual Report*. November 14, 2018. <https://www.irs.gov/newsroom/irs-criminal-investigation-releases-fiscal-year-2018-annual-report>.

<sup>4</sup> Treasury Inspector General for Tax Administration. *Declining Resources Have Contributed to Unfavorable Trends in Several Key Criminal Investigation Business Results*. September 13, 2017. <https://www.treasury.gov/tigta/auditreports/2017reports/201730073fr.pdf>.

Recent reports indicate that fewer financial crime investigations may also be the result of a larger shift of enforcement priorities at the IRS. ProPublica investigations, for example,<sup>5</sup> paint a picture of the IRS preferring to investigate crimes such as Ponzi schemes or the IRS disproportionately focusing on working class Americans who claim the earned income tax credit rather than investigating more straightforward tax code violations that could be linked to money laundering. According to a TIGTA July 2018 report, the IRS has also taken little to no action on compliance under the Foreign Account Tax Compliance Act, which would require banks with American account holders to report information to the United States. As such, there have been a number of recent reports of wealthy Americans hiding money from the IRS overseas, with exposure of criminal activity only resulting from investigations pursued for other matters. In addition, the European Commission this month adopted its new list of countries it identified as having weak anti-money laundering and countering terrorist financing regimes, which troublingly included 4 out of 5 American territories.<sup>6</sup>

When the IRS pursues fewer civil and criminal enforcement actions, it also forfeits billions of dollars in lost revenue. Every \$1 invested in tax enforcement could produce \$6 in revenue, with additional, indirect savings from deterring tax evasion potentially worth more than three times that amount.<sup>7</sup> Increased investments in enforcement could go a long way in reducing the estimated \$458 billion tax gap.<sup>8</sup>

We will continue to fight for increased IRS funding so that the IRS has the resources it needs to fully enforce our tax laws. However, the threat of money laundering in the United States only continues to grow and money laundering is closely linked to tax evasion, it is critical that the IRS strengthen its efforts to crackdown on criminal activity. As such, we urge you to strengthen enforcement efforts at the IRS, and correctly prioritize tax violations and financial crimes, including money laundering.

Sincerely,



Senator Richard J. Durbin



Senator Sheldon Whitehouse


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<sup>5</sup> Pro Publica. *Who's More Likely to Be Audited: A Person Making \$20,000 or \$400,000?* December 12, 2018 <https://www.propublica.org/article/earned-income-tax-credit-irs-audit-working-poor>.

<sup>6</sup> European Commission. *Commission Delegated Regulation C(2019) 1326 : supplementing Directive (EU) 2015/849 of the European Parliament and of the Council by identifying high-risk third countries with strategic deficiencies*. February 13, 2019. [https://ec.europa.eu/info/sites/info/files/commission-delegated-regulation\\_hrtc.pdf](https://ec.europa.eu/info/sites/info/files/commission-delegated-regulation_hrtc.pdf).

<sup>7</sup> Department of Treasury. *Internal Revenue Service FY2019 Budget in Brief*. 2018.

<sup>8</sup> Internal Revenue Service. *Tax Gap Estimates for Tax Years 2008-2010*. April 2016. <https://www.irs.gov/pub/newsroom/tax%20gap%20estimates%20for%202008%20through%202010.pdf>.



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Senator Elizabeth Warren



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Senator Richard Blumenthal



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Senator Bernard Sanders